GOVERNMENT OF INDIA
CIVIL AVIATION
LOK SABHA

STARRED QUESTION NO:110
ANSWERED ON:30.07.2001
CHARGING OF DAMAGES FROM BOEING LEASING COMPANY
ANNA SAHEB M.K. PATIL

Will the Minister of CIVIL AVIATION be pleased to state:

(a) whether the Indian Airlines propose to seek damages from M/s. GIAL boeing-leasing company on accountof failure to deliver aircraft as per the lease contract;

(b) if so, the details thereof; and

(c) the total revenue lost by the Indian Airlines and the penalty imposed on M/s. GIAL in this regard?

Answer

THE MINISTER OF CIVIL AVIATION (SHRI SHARAD YADAV)

(a),(b) and (c): A statement is laid on the table of the Sabha.

STATEMENT IN REPLY TO PARTS (a), (b) AND (c) OF THE LOK SABHA STARRED QUESTION NO.110 FOR 30.7.2001 REGARDING CHARGING OF DAMAGES FROM BOEING LEASING COMPANY

(a),(b) and (c): The Board of Directors of Indian Airlines in its 50th meeting held on 20th December 1999had approved in principle induction of aircraft capacity on lease for winter of 2000-01 to cater to passenger traffic. A global tender was floated in March, 2000 for dry lease of 4 aircraft (A-320/B-737 - 300/400) for induction from November 2000, for a period of 3 years.

The tender bids were opened on 17th July, 2000. Seven proposals were received out of which 3 offers were for Boeing 737-200 and 4 offers were for A-320 aircraft. The three offers for Boeing 737 aircraft were from the following parties:-

i) Paragon, ii) GECAS, iii) GIA International Limited

DGCA regulations provide that pressurized aircraft of morethan 15 years age cannot be imported under lease arrangements. Paragon had offered four aircraft which were more than 15 years of age and therefore, did not meet the DGCA regulations.GECAS offered two aircraft below the age of 15 years. Two aircraft offered by GECAS were same as offered by GIALSubsequently, GECAS advised that the two B737-200 aircraft proposed by them for lease to Indian Airlines were not available as these aircraft had already been signed up for lease elsewhere.

GIAL was thus the only eligible party meeting the tender requirments and DGCA regulations.

GIAL was, therefore, invited for discussions with the Lease Committeeof Indian Airlines. Detailed discussions were held with GIAL in August 2000. GIAL confirmed thatall technical requirements/mandatory modifications as required by DGCAwould be complied with during `C` check to be carried out before delivery of each aircraft.

The Board of Indian Airlines in its 54th meeting held on 18th September, 2000 approved drylease of five Boeing 737-200 aircraft from GIAL for a period of three years from November 2000 onwards and also approved the issuance of Letter of Intent to the party.

A Letter of Intent was executed between Indian Airlines and GIAL for lease of five Boeing737 aircraft on 21st September, 2000. The Letter of Intent provided delivery of first aircraft by 25th November, 2000 and thereafter delivery of one aircraft every 14 days.

Lease Agreements duly vetted by the Legal Advisors were signed between Indian Airlines and GIAL in New Delhi on 15th of December, 2000. The Lease Agreement provided the following delivery schedule:

22nd December, 2000 - First aircraft
29th December, 2000 - Second aircraft
10th January, 2001 Third aircraft
22nd January, 2001 Fourth aircraft
31st January, 2001 Fifth aircraft

In order to ensure compliance of terms of Lease Agreement particularly with regard to timely delivery of aircraft, the Lease Agreements provide for the following:

i) Lessor shall pay to lessee, as liquidated damages, the amount of USD 8,500 for each day following expected delivery date until either aircraft is delivered to lessee or lessee exercise its option to terminate its obligation to lease the aircraft.

ii) The first aircraft to be delivered as on 22nd December, 2000 with a grace period of 7 days. On 29th December, 2000, Indian Airlines could choose to cancel lease contract for all aircraft.

iii) Latest delivery date i.e. 7th February, 2001 on which date Indian Airlines could choose to cancel lease contract for remaining undelivered aircraft.

Despite continuous follow-up, no aircraft was delivered by GIAL by the back stop date of 7th February, 2001. Indian Airlines then took up the mater with GIAL through its Legal Advisors. Efforts of Indian Airlines continued with GIAL who provided a revised delivery schedule during the month of March, 2001.

In view of the continuous deferment of the delivery schedule, Indian Airlines decided to call GIAL team to India to discuss the issue regarding delivery of the aircraft.

GIAL team finally came to India on 27th April 2001. The discussions continued till 17th May, 2001 but when no results were forthcoming it was decided by Indian Airlines that in view of GIAL`s inability to deliver the aircraft, the best course of action would be to terminate the Lease Agreements. The Lease Agreements were finally terminated on 21st May, 2001.

Indian Airlines is taking necessary steps in consultation with the Legal Advisors regarding the due claim against the party, in accordance with the provisions of the Lease Agreements, for non-delivery of leased aircraft.